Government of the District of Columbia

Office of the City Administrator

Testimony of
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Priorities for the Use of Potential Funds for the District of Columbia from Federal Economic Stimulus Legislation

Council of the District of Columbia

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The John A. Wilson Building
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Thank you, Chairman Gray, for inviting me to testify today about the stimulus legislation currently under consideration in Congress and the opportunities it presents for the District of Columbia as we head into the FY10 budget cycle.

I note that you also made reference in your hearing notice to the limitations of this legislation, and I think that was very wise. I also want to take a moment at the outset of my remarks to touch on those limitations, because they represent an important part of this discussion. It would be easy to succumb to the temptation to begin planning to spend what sounds like a very large sum of money without recognizing that much of the funding provided in the House and Senate bills comes with certain limitations – including maintenance of effort requirements, prohibitions against supplanting previously planned local expenditures, and existing criteria contained in the underlying statutes for Federal programs like Title I of the Elementary and Secondary Education Act and Title 23 of the Federal Highway Act.

In addition, the size and shape of the final bill is still in flux, with the House- and Senate-passed versions reflecting significantly different approaches in some key areas. For instance, the State Fiscal Stabilization Fund is $79 billion in the House bill, but only $39 billion in the Senate. And, while the Senate provided $5.5 billion in competitive surface transportation grant funding, it eliminated the House's $14 billion for school modernization as well as another $4 billion that was provided for states and localities to stabilize communities hit by high rates of home foreclosures. These differences are expected to be resolved in the coming weeks, but until they are, we cannot determine with precision what affect the bill will have on specific local activities or agencies.

As a result, it is unlikely that the stimulus bill will solve the District's fiscal problems in 2010. In the past six months, local revenue estimates for 2010 have fallen by $455.8 million. During that time, worldwide economic indicators have continued on their downward trajectory, and we have seen U.S. businesses that once seemed invincible close their doors while entire countries hover on the brink of financial collapse. Later this month the Chief Financial Officer will issue revised revenue estimates, taking into account, for the first time in a year, fluctuations in the real property market. Furthermore, as falling revenues strain this government's capacity to support critical services, we know that the local impact of the economic downturn will cause more and more residents to seek our help through those programs.

Having said all that, there are many opportunities for the District in these bills, and I am happy to discuss the Administration's preparations to take full advantage of them. We have been working to ensure that we can spend down Federal formula dollars under the tight timeframes that will apply and also that we are prepared to submit very high quality competitive applications for those funds that will be distributed on a competitive basis.

Traditional Infrastructure Funding:

As you know, the primary purpose of the stimulus legislation is to jump start the economy, and, in so doing, prevent the loss of additional jobs and create new jobs to replace those that have already been lost. The main driver of this job creation is a significant new investment in the nation's infrastructure (roads and bridges, transit systems, waste water treatment facilities, and the electrical grid and telecommunications networks). In addition, new funds for renovation and retrofitting of schools, government buildings, and public housing to make those facilities more energy efficient are expected to translate fairly quickly into new jobs and have spend-down requirements that reflect that expectation.

In my view, these funds represent a tremendous opportunity for the District – and in fact for state and local governments around the country – to make long overdue infrastructure investments. While it has been clear that such investments are critically needed for some time (recall the August 2007 collapse of the I-35W bridge over the Mississippi River in Minneapolis, Minnesota), surprisingly little progress has been made to secure a substantial commitment of Federal funds to this effort up to this point. Here in the District, we have made good progress in reducing number of structurally deficient bridges within our borders. However, there are still 21 bridges within the District that are structurally deficient, and the estimated replacement cost for those bridges is $650 million.

In addition, there is $3.8 billion of work to do at Blue Plains and in the sewer lines flowing to it just to meet our obligations under the Long-term Control Plan and other agreements with the Environmental Protection Agency. Those projects are critical to the long-term health of the Chesapeake Bay and the Potomac and Anacostia Rivers and to the success of our economic development efforts on their shores. However, it has been extremely difficult to identify sources of funding, aside from rate increases, to support that work. A significant infusion of Federal funds at this facility now would allow us to dramatically accelerate implementation of the plan, reclaiming our rivers and their shores for recreational use by District residents years earlier than might otherwise be possible.

In this way, the stimulus bill presents a unique opportunity to make major investments in our local infrastructure that will render the District more competitive as a location for new residents and businesses, more appealing as a destination for tourists and business travelers, and a better, more healthful place to live.

Direct Fiscal Relief to States and the District of Columbia:

A second goal of Federal stimulus legislation is to provide direct fiscal relief to states and municipalities. As the bills are currently drafted, that relief will come in two forms: (1) through an increase in the Federal match rate (or "FMAP") for Medicaid and foster care funding and (2) through funding provided directly to states (and the District) to mitigate the impact of the downturn on local education spending and other government services on the basis of population.

While we expect the FMAP increase to be significant, the differences in the House and Senate allocation formulas, combined with the uncertainty around the District's future unemployment rate (which is a component of both formulas), result in projections for the District's Medicaid increase that range from $249 million to $314 million over the next two years – a $65 million difference. Also, because these funds are coming at a time when we are expecting increases in Medicaid enrollment, even when we can determine the actual amount of new funding the District will receive, the bottom-line impact on our local budget may not be what we hope.

These Medicaid funds, while welcome, come with restrictions. For example, both the House and Senate bills contain requirements that we not make changes to our eligibility standards, methodologies, and procedures that are more restrictive than those in effect on July 1, 2008, and both prohibit us from setting aside any of these funds to protect against unplanned expenses.

The fiscal stabilization fund presents another funding opportunity for the District. However, the large difference between the overall funding provided for state fiscal stabilization programs in the House and Senate bills – $79 billion and $39 billion, respectively – translates into a large difference in the estimated funding level for the District under the two bills. Specifically, the District's two-year "share" of the $79 billion House bill is expected to be about $118 million. Under the Senate bill, it would be closer to $60 million, again over two years. And the final number will, most likely, be somewhere between the two.

It is also important to note that there are "strings" attached to these funds. Specifically, the largest portion of the stabilization funding is subject to maintenance of effort restrictions, sub-allocation to local education agencies in accordance with Title I apportionment rules, and a stipulation that use of the funds conform to the requirements set forth in three other federal laws – the Elementary and Secondary Education Act of 1965 (ESEA), the Individuals with Disabilities Education Act (IDEA), and the Carl D. Perkins Career and Technical Education Act – and with their implementing regulations. To receive the funds, we also will be required to make assurances to the U.S. Department of Education regarding teacher distribution, collection and use of student data, and the quality of our educational assessment tools that may in fact require the District to spend local dollars in order to access the Federal funds.

Preparations for Efficient Contracting and Competitive Grant Applications

We are absolutely committed to taking advantage of every opportunity for funding available to the District in the Federal stimulus bill that ultimately becomes law. The Director of Contracts and Procurement already is working with key DC Government agencies to develop plans for rapid execution of the contracts that will be necessary to spend down the Federal funds we expect to receive. I am confident, based on his agency's performance leading up to the Presidential Inaugural last month and given this preparation, that we will be able to meet the various contracting and spending deadlines that are included in the final bill while ensuring that we have a fair and competitive process.

We also are developing agency working groups to target competitive funding in areas where we expect it to be available – from neighborhood stabilization and school improvement to enhanced fuel efficiency for government vehicles and training for jobs in high growth and emerging industries. The Mayor has told his agency directors that he expects the District's applications in each of these areas to be of the highest quality, and while I expect competition for those grants to be intense, I also expect us be successful in many of these categories.

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Before I conclude my remarks, I also want to note that over the long term, after the stimulus funding has passed, serious local budget challenges remain. The catchphrase for the federal stimulus bill has been "targeted, timely and temporary" and I want to underline that last word – temporary. At the end of the day, we are going to have to solve our local budget problems on our own. In addition to a decline in revenue growth that is likely to be protracted, the threats we are facing include the prospect of dramatic increases in the District's required annual contributions to retiree costs including pensions and other benefits. Continued growth in mandatory debt service payments also increases the strain on the operating budget. Our residents' high expectations will remain long after the stimulus funds are gone. It is critical that the District begin addressing its long-term sustainability issues now, beginning with the proposed 2010 budget.

That concludes my prepared remarks. I would be happy to answer any questions you may have.